

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF**

**For The Year Ended
December 31, 1999**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LAUREL COUNTY SHERIFF

For The Year Ended
December 31, 1999

The Auditor of Public Accounts has completed the Laurel County Sheriff's audit for the year ended December 31, 1999. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$20,237 from the prior calendar year, resulting in excess fees of \$0 as of December 31, 1999. Revenues increased by \$316,929 from the prior year and disbursements increased by \$337,166.

Debt Obligations:

Capital lease principal agreements totaled \$102,600 as of December 31, 1999.

Report Comments:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids
- The Sheriff Should File His Annual Settlement With The Fiscal Court
- The Sheriff Should Publish His Annual Financial Settlement
- The Sheriff Should Properly Account For All Contract Labor Transactions
- Salaries Should Be Approved By The Fiscal Court
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff's Budget Should Be Approved By The Fiscal Court
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds, however, he did not have a written agreement.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Laurel County, Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 1999, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Lawrence Kuhl, County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
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In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids
- The Sheriff Should File His Annual Settlement With The Fiscal Court
- The Sheriff Should Publish His Annual Financial Settlement
- The Sheriff Should Properly Account For All Contract Labor Transactions
- Salaries Should Be Approved By The Fiscal Court
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- The Sheriff's Budget Should Be Approved By The Fiscal Court
- Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 28, 2003

LAUREL COUNTY
 GENE HOLLON, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 1999

Receipts

Federal Grants		\$	99,992
State Grants			50,386
State Fees For Services:			
Cabinet For Human Resources			42,073
Circuit Court Clerk:			
Sheriff Security Service	\$	63,296	
Fines and Fees Collected		2,350	
Court Ordered Payments		1,675	
Jury Expense Reimbursement		70	
Prisoner Transport		1,426	
Reimbursement-Escort		60	
Reimbursement-Witness Protection		<u>3,167</u>	72,044
Fiscal Court			347,156
County Clerk - Delinquent Taxes			35,137
Commission On Taxes Collected			472,069
Fees Collected For Services:			
Auto Inspections	\$	27,073	
Accident and Police Reports		796	
Carrying Concealed Deadly Weapon Permits		17,055	
District Fee-Court Time		6,494	
Serving Papers		<u>55,272</u>	106,690
Miscellaneous			2,554
Interest Earned			2,512
Interest Earned on Property Taxes			8,084
Helicopter Fund Receipts (Note 6)			380

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 1999
 (Continued)

Receipts (Continued)

Borrowed Money:

State Advancement	\$	60,000	
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Total Receipts	\$	1,299,077	
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Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	508,977	
Grant Funds		611	
Witness Protection		2,817	

Employee Benefits-

Employer's Share Social Security		35,316	
Employer Paid Health Insurance		68,536	
State Unemployment		4,640	

Contracted Services-

Professional Fees		2,012	
Forest Service Lake Patrol		4,335	

Materials and Supplies-

Carrying Concealed Deadly Weapon Permits		10,475	
Office Materials and Supplies		54,135	
Computer Repairs		40	
Uniforms		13,494	
Prisoner Transport		3,562	
Miscellaneous		65	
Refunds		20	709,035

Other Charges-

Helicopter Fund Expenditures	\$	380	
Aviation-Helicopter Insurance		2,188	
Bond Renewal		3,007	
Telephone and Communications		45,409	
Equipment Grant Disbursements		6,294	
Miscellaneous		18,847	76,125

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 1999
 (Continued)

Disbursements: (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Conventions And Training-

Drug Program	\$	400	
Training School		4,167	
Travel		12,792	
Insurance Dues		1,073	
Marijuana Eradication		2,274	\$ 20,706

Auto Expense-

Gasoline	\$	46,616	
Maintenance		41,771	
Toll Cards		50	88,437

Capital Outlay-

Office Equipment	\$	15,609	
Vehicle Lights and Siren		1,709	
Vehicle Purchase		203,937	221,255

Debt Service-

State Advancement	\$	60,000	
Bank Notes		49,951	
Interest on Bank Loan		2,660	112,611

Total Disbursements

1,228,169

Net Receipts

\$ 70,908

Less: Statutory Maximum

\$ 70,220

Training Incentive

70,908

Excess Fees Due County for 1999

\$ 0

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 1999.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent for the first six months and 7.28 percent for the last six months of the year.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1999
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits:

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral. However, the depository institution's board of directors or loan committee did not approve the pledge or provision and did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official on December 8, 1999.

	<u>Bank Balance</u>
FDIC insurance	\$ 100,000
Uncollateralized and uninsured	<u>7,614,916</u>
Total	<u><u>\$ 7,714,916</u></u>

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1999
(Continued)

Note 4. Leases

A. The Sheriff's office is committed to a lease agreement with Pitney Bowes, Inc. for a copier. The agreement requires a monthly payment of \$140 for 51 months to be completed in February 2002. The total balance of the agreement was \$3,500 as of December 31, 1999.

B. The Sheriff's office was also committed to the following lease agreement as of December 31, 1999:

Item	Annual	Term of	Ending	Principal
<u>Purchased</u>	<u>Payment</u>	<u>Agreement</u>	<u>Date</u>	<u>Balance</u>
				<u>12/31/99</u>
7 vehicles	\$ 51,300	3 annual	January 2002	\$ 102,600

Note 5. Grants

A. LLEB - 97-2/98 Grant For Overtime Payments

During 1999, the Sheriff received \$5,000 for payment of overtime wages. He earned \$126 in interest during the year and did not have any disbursements. As of December 31, 1999, the account had a balance of \$5,126.

B. LLEB - 36-1/97 Equipment Grant

The Sheriff had an equipment grant that was received in prior years. The beginning balance was \$5,674. Matching funds of \$611 were deposited and interest of \$85 was earned during the year. The Sheriff spent \$6,294 during the year. As of December 31, 1999 the Sheriff had a balance of \$76 in the account.

Note 6. Helicopter Fund

The Sheriff opened a bank account during 1999 which he uses for helicopter expenses. He had receipts totaling \$2,136 during the year and expenditures totaling \$380. As of December 31, 1999, the balance in the account was \$1,756.

Note 7. Related Party Transaction

During the year ended December 31, 1999, the Laurel County Sheriff purchased a vehicle from himself for \$8,500.

LAUREL COUNTY
GENE HOLLON, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Year Ended December 31, 1999

Assets

Cash in Bank	\$ 54,343
Deposits in Transit	144,137
Receivables:	
Refund Due From Fiscal Court - 1997 Excess Fees	<u>7,365</u>
Total Assets	<u>\$ 205,845</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$ 194,881
Liability Paid after December 31, 1999	<u>3,599</u>
Total Paid Obligations	\$ 198,480

Unpaid Obligations:

Laurel County- 1998 Excess Fees	<u>20,237</u>
Total Liabilities	<u>\$ 218,717</u>
Total Fund Deficit as of December 31, 1999	<u><u>\$ (12,872)</u></u>

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COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

December 31, 1999

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Eliminate Deficit In His Official Fee Account

The Sheriff has a cumulative deficit of \$12,872 as of December 31, 1999. This deficit is the result of excess fees owed the fiscal court for 1998 for \$20,237 less a refund of \$7,365 due from the fiscal court for overpayment of 1997 excess fees. We recommend the Sheriff eliminate this deficit.

County Sheriff's Response:

We will eliminate the deficit.

2. Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids

The Sheriff is not accounting for disbursements properly. Proper documentation was not provided for many of the disbursements selected for testing. The Sheriff did not advertise for bids for all vehicles and fuel purchased. KRS 424.260(1) states "except where a statute specifically fixes a larger sum as the minimum requirement of advertisement for bids, no Sheriff shall make a contract, lease, or other agreement for materials or supplies involving expenditure of more than twenty thousand dollars without first making newspaper advertisement for bids." KRS 424.260(2) states "if the fiscal court requires that the Sheriff advertise for bids on expenditures of less than twenty thousand dollars, the fiscal court requirement shall prevail." Technical Audit Bulletin T.A.B. #93 Section 4(c) states that "The expenditure of public funds without maintaining proper and accurate documentation is subject to an audit comment." We recommend the Sheriff comply with KRS 424.260(1) by maintaining proper documentation for expenditures made from his official fee account.

County Sheriff's Response:

Kentucky Fuel Accounting supplied the fuel for all police agencies in the state. There was no contract but this was much cheaper than getting it at the pump.

3. The Sheriff Should File His Annual Settlement With The Fiscal Court

The Sheriff did not file his annual settlement with the county. KRS 134.310 states "the Sheriff shall file annually with his final settlement: (a) a complete statement of all funds received by his office for official services, showing separately the income received by his office for services rendered and (b) a complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses." We recommend the Sheriff comply with KRS 134.310 by filing his annual settlement with the county.

County Sheriff's Response:

We will comply.

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS
December 31, 1999
(Continued)

4. The Sheriff Should Publish His Annual Financial Settlement

The Sheriff did not publish his annual financial statement. KRS 424.220 (6) & (8) states "the Sheriff shall, within sixty days after the close of the Sheriff's fiscal year, cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the county. Promptly after publication is made, the Sheriff shall file a written or printed copy of the advertisement with proof of publication, in the office of the county clerk of the county and with the Auditor of Public Accounts. Promptly after publication is made, the Sheriff shall also file one (1) copy of the financial statement with the Kentucky Department for Local Government." We recommend the Sheriff comply with KRS 424.220 by publishing his annual financial statement.

County Sheriff's Response:

We will comply.

5. The Sheriff Should Properly Account For All Contract Labor Transactions

The Sheriff made payments of \$4,335 for contract labor, for which he did not prepare a W-2 or Form 1099. The Sheriff should prepare a 1099 form for each employee who does contract labor. In the future, we recommend the Sheriff comply with state and federal regulations pertaining to payment of wages by preparing the required forms.

County Sheriff's Response:

We will comply.

6. Salaries Should Be Approved By The Fiscal Court

We could not determine the fiscal court had approved the deputies' salaries. KRS 64.530 states "In the case of officers compensated from fees, or partly from fees and partly from salaries, the fiscal court shall fix the maximum compensation that any officer may receive from both sources. The fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies, assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." We recommend the Sheriff comply with KRS 64.530 by submitting salary to the fiscal court for approval.

County Sheriff's Response:

We will comply.

LAUREL COUNTY
GENE HOLLON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
December 31, 1999
(Continued)

7. The Sheriff Should Submit Required Financial Reports To The Department For Local Government

The Sheriff did not submit the required financial reports to the Department for Local Government. KRS 68.210 states that the Sheriff shall file financial reports. We recommend the Sheriff comply with KRS 68.210 by submitting the required reports to the Department for Local Government.

County Sheriff's Response:

We are complying with this now.

8. The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. On December 8, 1999, the Sheriff had bank deposits of \$7,714,916; FDIC insurance of \$100,000; and collateral pledged or provided of \$7,800,000. Even though the Sheriff obtained sufficient collateral of \$7,800,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Sheriff's Response:

We are in compliance with this now.

9. The Sheriff's Budget Should Be Approved By The Fiscal Court

The Sheriff did not present his budget to the Fiscal Court for approval. According to KRS 64.530(3), the Fiscal Court shall fix annually the maximum amount the officer may expend each year for expenses of his office. We recommend the Sheriff comply with KRS 64.530(3) and in the future, present his budget to the Fiscal Court for approval.

County Sheriff's Response

We are in compliance with this now.

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS
December 31, 1999
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

10. Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically prepare a daily checkout sheet and daily bank deposit. The daily checkout sheet should agree to the daily receipts ledger and any differences noted should be investigated.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should review or prepare a monthly bank reconciliation that should reconcile to the receipts and disbursements ledgers. Any differences should be investigated.
- The Sheriff should require two (2) signatures on all checks written.

County Sheriff's Response:

We will comply.

PRIOR YEAR:

- The Sheriff Had A \$55,273 Deficit In His 1998 Official Fee Account
- The Sheriff Owes Excess Fees To The County Treasurer
- All Claims Should Be Paid By Itemized Invoice
- The Annual Financial Statement Was Not Presented And Approved By The Fiscal Court
- The Annual Financial Statement Was Not Published
- The Sheriff Should Properly Account For Payroll Transactions
- There Was A Lack Of Adequate Segregation Of Duties

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Laurel County Sheriff for the year ended December 31, 1999, and have issued our report thereon dated August 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement for the year ended December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids
- The Sheriff Should File His Annual Settlement With The Fiscal Court
- The Sheriff Should Publish His Annual Financial Settlement
- The Sheriff Should Properly Account For All Contract Labor Transactions
- Salaries Should Be Approved By The Fiscal Court
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff's Budget Should Be Approved By The Fiscal Court



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the lack of adequate segregation of duties to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 28, 2003

